

REAL ESTATE

Vol. 2, No. 9

September 1989

OUTLOOK

A Monthly Forecast for the Economy and Real Estate

FORECAST SUMMARY

- Economic activity was apparently much stronger in the second quarter than the government initially reported, prompting the U.S. Department of Commerce to revise its estimate of real GNP growth upward by a full percentage point to an annual rate of 2.7 percent.
- For the second month in a row, the Consumer Price Index advanced at the very modest pace of 0.2 percent, casting doubt on fears of accelerating inflation. Meanwhile, the Producer Price Index fell for the second month in a row, dropping 0.4 percent in July -- the largest one month decline in over three years.
- With the economy apparently shaking off the outward signs of a coming recession, the Fed found itself under far less pressure to ease up on interest rates over the past month. While the Fed has not taken any direct credit tightening action, it has also made it clear that it does not intend to make any further interest rate cuts in the near future.
- Starts of privately owned homes rose slightly in July to 1.43 million units. The July increase marks the second consecutive monthly advance and the fastest annual rate since February of this year.
- Sales of new single-family homes staged an impressive comeback in July, jumping 14.4 percent to a seasonally adjusted annual rate of 739 thousand units. The rise marked the fastest rate of sales since December 1986, when homes were sold at an annual rate of 768 thousand units and it was also the largest one month climb since March 1986.
- Mirroring the trend in starts and new home sales, the sales pace of existing homes picked up speed in July, rising 1.2 percent to a seasonally adjusted annual rate of 3.4 million units.
- As is usually the case during the summer months, the median price of an existing single-family home continued to rise in July, moving upward by 3.2 percent to \$96,400. Moreover, the median existing home showed an annual appreciation rate (July 1988 to July 1989) of 6.3 percent.

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Thrift Raiders of the Lost Ark

Economic Commentary

by
John A. Tuccillo
Chief Economist and
Senior Vice President
Real Estate Finance

The events of the summer have been nothing short of dazzling. With the Orioles in first place, people travelling to Woodstock, the Who and the Stones packing in the crowds and Paul McCartney, Ringo Starr and The Dead also on tour, it could be 1969 rather than 1989. But the headlines -- at least the financial news -- have been dominated not by what's similar to twenty years ago, but rather what's different. In the late Sixties, thrift institutions were at their zenith, pulling mom-and-pop deposits into their street corner temples and financing the American Dream. Now they're in deep trouble and with the passage of FIRREA (don't ask what it stands for -- only twelve people in Washington know!) questions must be asked about the future of this industry and, more importantly, the future of real estate finance.

FIRREA is an enormous piece of legislation, one that Congress sweated over for nearly a year. Some of its provisions will become clear only in their implementation. We don't know, for example, the ultimate impact of the absorption of the Federal Home Loan Bank Board by the Treasury, or the manner in which the Resolution Trust Corporation (RTC) will operate (more on this later). But we can make some judgments about the immediate impacts of some of the key provisions of the law.

- 1) **There will be fewer thrift institutions.** It now appears that the RTC will use \$20 billion of spending authority by September 30 to buy out high rate deposits at endangered thrifts. This is a significant first step that will lead to their disappearance. More importantly, FIRREA enhances the attractiveness of thrift acquisitions by allowing commercial banks to buy and then convert healthy institutions. This ought to lead to a sharp reduction in the numbers of thrifts over the next three years.
- 2) **Those that remain will be more conservatively managed.** FIRREA tightens up the qualified thrift lender (QTL) test to move surviving thrifts more firmly toward residential mortgage investment. The new level is 70 percent, with no credit for mortgage banking operations. In addition, thrifts will have to give themselves a New Year's present of tangible capital to the tune of 1.5 percent of assets. Capital is the saffron of the financial industry -- rare, expensive and a delight to the senses. To reach the FIRREA standards, institutions must either buy more capital, shrink, or shift their portfolios toward more liquid assets. Bet on the last two. The surviving thrift of the future may look curiously like the thrift of the past.

3) **The market for mortgage securities will change.**

This is a good news, bad news story. As the thrift industry is wound-down, both the Federal Government and the healthy segment of the industry will be "cashing out." Clearly, the first assets to go -- the ones with the best market potential -- will be mortgage securities. We have already seen a widening of spreads between MBS and Treasuries; that will continue over the next eighteen months. That's the bad news. The good news is that rising capital standards for all institutions will whet the appetite of commercial banks for mortgage securities and allow the market to grow substantially over the long term. Moreover, with the continuing demand for ARMs by borrowers and the demise of many thrift institutions -- major ARM investors -- the securitization of these instruments will be the next great development area for the secondary market.

When these are added up, and other effects are added, it seems that the most probable future for real estate finance is the continuation of the evolution of the Eighties. As the thrifts got into more and more trouble, the system developed alternative delivery systems -- largely centered on the secondary market -- and "sealed off" the sick part of the body. That will continue regardless of the nature or number of surviving institutions.

But what about the RTC? Given the location of the properties held by the government, there is immense potential for the disposition process to wreak havoc on local economies. The tricky part here is that there is no generalized answer. In some markets, a return to health is best done by fire-selling all property. This "Yellowstone" approach would clean the whole market out so that six or twelve months later, new blossoms and wildlife can flourish. In others, confiscated properties must be fed in gradually, because the market is too frail to sustain major shocks. The challenge to the RTC is to find and execute on a location-by-location basis the proper disposition approach. Clearly this is a piece of the thrift resolution in which all REALTORS® have a vital interest.

One thing is certain: the RTC will have some time to mull over its strategy. The assets the government now owns are best visualized by envisioning the huge warehouse that serves as the final resting place for the Ark of the Covenant in *Raiders*. In the vastness of the collection, there are some treasures amidst the garbage, but it will take years to sort it all out. And maybe that's for the good of the Republic.

Outlook for the Economy and Real Estate

THE ECONOMIC OUTLOOK

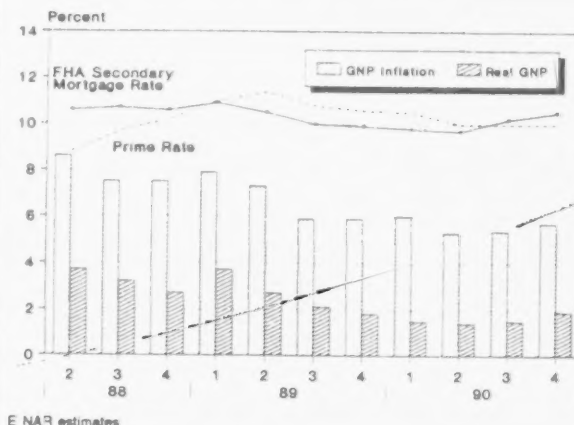
Economic activity was apparently much stronger in the second quarter than the government initially reported, prompting the U.S. Department of Commerce to revise its estimate of real GNP growth upward by a full percentage point to an annual rate of 2.7 percent. Aside from a healthy addition to the estimate of government spending, most of the GNP revision was spurred by a near doubling in the estimate of consumer spending, which increased by \$14.3 billion in the second quarter rather than the previously reported \$7.2 billion. Other encouraging revisions included smaller business inventory growth and slightly lower inflation: the annual rate of advance of the GNP price index was pegged at 5.1 percent, just under than the original estimate of 5.2 percent. This latest GNP report comes at a time when a host of monthly indicators suggest an upturn in economic activity during the mid-summer months. These new signs of economic strength have cast doubt on the likelihood of an economic recession during 1989, but have also reduced the chances of any further interest rate decreases by the Federal Reserve for the present.

Consumption is Still in Vogue

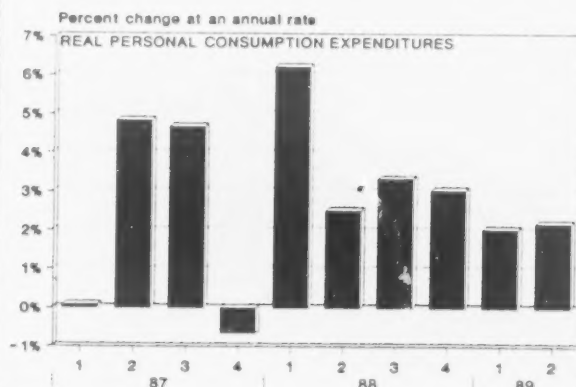
The \$7.1 billion revision to the consumer spending estimate confirms that the American consumer has not yet lost his appetite. Earlier this year, many analysts pointed to the then sagging consumption figures as a signal that consumer spending was on the retreat. However, it now appears the consumption slowdown was probably a reaction to a combination of unexpectedly heavy income tax payments, rising energy and food costs, and rising interest rates -- rather than an all out retreat on the part of the consumer. With all three of these burdens past, consumers have resumed spending patterns more typical of this economic expansion. However, while consumption of services and non-durable goods continues, demand for durable goods is expected to remain weak. The virtually uninterrupted spending of the past six years on consumer durable goods has most likely exhausted demand. Moreover, as today's generous car manufacturer and dealer incentives borrow from future sales, the rate of car sales is expected to slow again in the fall. Car buyers are likely to be further discouraged by safety-related price hikes in the 1990 models.

The national savings rate, while dipping slightly in the second quarter from 5.6 to 5.3 percent, has not suffered any major setbacks, despite the rise in consumption. In fact, savings as a percentage of disposable personal income has increased substantially from its low of 1.8 percent in the second quarter of 1987. Powerful demographic forces are likely at work here: baby boomers are moving into their 30's and 40's, which typically are peak years for earning and saving. At first glance, consumption growth and stronger savings would seem to be contradictory. However, the increases in both spending and savings have been encouraged by strong personal income growth, which rose 0.7 percent in August. Sources of continued personal income growth include the increased earning potential of the baby boomers as well as continued, uninterrupted employment growth. Payroll employment was up by an additional 110,000 jobs in August, an unexpectedly large figure given the 108,000 employees out on strike.

GRAPH 1: THE ECONOMIC OUTLOOK

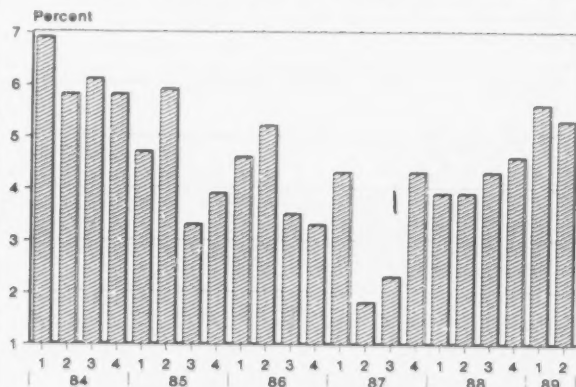


GRAPH 2: CONSUMERS CONTINUE TO SPEND



Source: Bureau of Economic Analysis.

GRAPH 3: SAVINGS TAKES UP A GREATER SHARE OF DISPOSABLE INCOME IN 1989



Source: The Bureau of Economic Analysis.

Inflation on the Retreat?

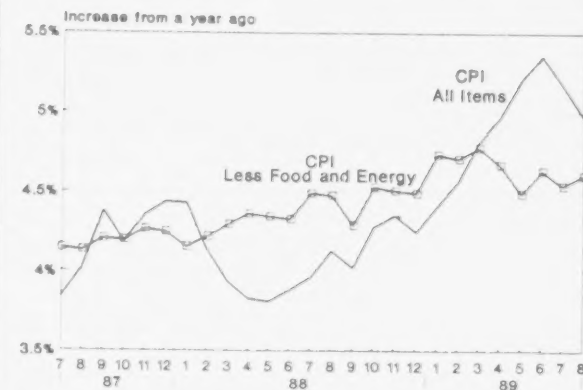
For the second month in a row, the Consumer Price Index advanced at the very modest pace of 0.2 percent, casting doubt on fears of accelerating inflation. Meanwhile, the Producer Price Index fell for the second month in a row, dropping 0.4 percent in July -- the largest one month decline in over three years. As encouraging as the recent inflation data may be, a closer look suggests that inflationary pressures must still be watched very carefully. During the spring and early summer, inflation measures were exaggerated by sharp increases in the cost of food and energy products. The recent slowdown of inflation is a reflection of the retreat in the cost of both of these goods. Graph 6 shows the rise in the Consumer Price Index for all goods, and then net of food and energy price changes, over the past two years. While recent movements in the general price level have been stimulated by food and energy costs, the rise of the CPI less food and energy products (many analysts consider this index to be a measure of the economy's core rate of inflation) had been rising steadily up until early spring of this year, where it leveled off at around 4.7 percent. While the Fed may have succeeded in stemming the rise of inflation, an inflation rate nearing 5 percent is not the stable price level Fed Chairman Alan Greenspan vowed to obtain more than a year ago.

MONETARY POLICY AND INTEREST RATES

As a result, perhaps no one is more conscious of the continued threat of inflation than the Federal Reserve. With the economy apparently shaking off the outward signs of a coming recession, the Fed found itself under far less pressure to ease up on interest rates over the past month. While the Fed has not taken any direct credit tightening action, it has also made it clear that it does not intend to make any further interest rate cuts in the near future. The result has been an upward drift in interest rates in recent weeks to approximately their level of late July. As dedicated as the Fed may be to reducing inflation to a level closer to 2 or 3 percent, it is unlikely that it will take any strong steps to lower inflation during the remainder of 1989. Instead, we expect that continued slow real growth will help ease short and long-term interest rates over the remainder of 1989.

Against a backdrop of renewed economic activity and the apparent resolve of the Federal Reserve to hold credit tight, the value of the dollar has soared. Add to this the dollar rally of late May and early June, and the trade-weighted value of the dollar has risen 11.3 percent since January of this year. Foreign exchange markets have apparently disregarded not only central bank intervention (the New York Fed spent \$12 billion between May and June trying to hold the dollar down with little or no effect), but also erratic improvement in the U.S. trade deficit. The dollar is expected to trade within a wide range over the closing months of 1989, as more information on the health of the U.S. economy and the extent of the Fed's resolve to fight inflation is revealed. However, the three other major industrial countries, including Japan, West Germany and Britain, may be planning interest rate hikes in response to inflationary troubles of their own. A concerted increase in interest rates by these three countries would seriously reduce the attractiveness of the dollar as well as its value.

GRAPH 4: THE CPI WITH AND WITHOUT FOOD AND ENERGY GOODS



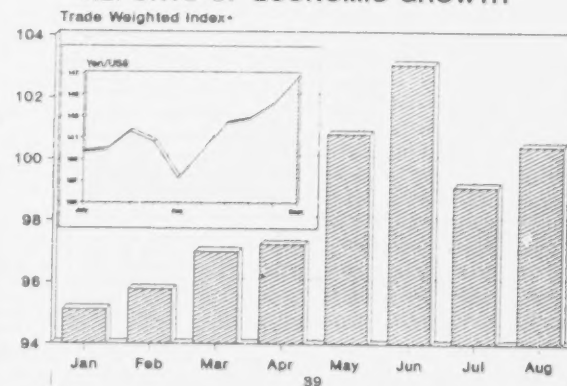
Source: The Bureau of Labor Statistics.

GRAPH 5: THE OUTLOOK FOR LONG-TERM INTEREST RATES



Source: The Federal Reserve Board, E NAR Estimates.

GRAPH 6: THE DOLLAR SOARS AMIDST REPORTS OF ECONOMIC GROWTH



*March 1973=100

Source: Board of Governors of the Federal Reserve System.

HOUSING STARTS

(Seasonally Adjusted Annual Rates, in Thousands)

NATIONAL DATA

		Total	S-F	2-4	5 and up
Jul	1989	1430	1041	59	330
Jun	1989	1419	979	56	384
May	1989	1308	977	42	289
Apr	1989	1343	1029	62	252
Mar	1989	1409	981	50	378
Jul	1988	1478	1067	50	361

Jul 1989 Changes From:

Jun	1989	0.8%	-6.3%	5.4%	-14.1%
Jul	1988	-3.3%	-2.4%	18.0%	-8.6%

REGIONAL DATA

		Northeast	Midwest	South	West
Jul	1989	196	272	530	432
Jun	1989	169	245	554	451
May	1989	176	244	513	375
Apr	1989	207	274	526	336
Mar	1989	160	308	552	389
Jul	1988	255	283	566	374

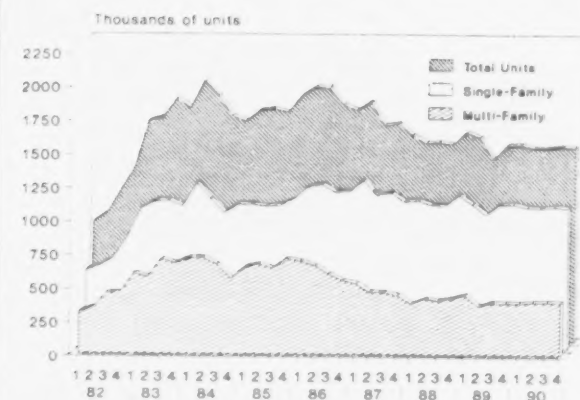
Jul 1989 Changes From:

Jun	1989	16.0%	11.0%	-4.3%	-4.2%
Jul	1988	-23.1%	-3.9%	-6.4%	15.5%

Source: Bureau of the Census; Construction Reports, Series C20

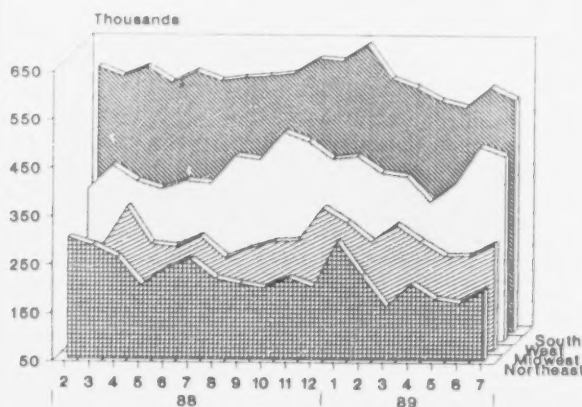
Starts of privately owned homes rose slightly in July to 1.43 million units. The July increase marks the second consecutive monthly advance and the fastest annual rate since February of this year. The 0.8 percent increase followed a revised 8.5 percent jump in starts during June, when homes were started at an annual rate of 1.419 million units. However, unlike the June increase, which was fueled almost entirely by the 32.9 percent jump in starts of multi-family units, the step up in starts during July was encouraged by the 5.4 percent rise in starts of single-family homes; while multi-family starts dropped by 11.6 percent. The uptick in single-family starts is likely the result of falling interest rates during June and July. Further advances in housing starts during 1989 are expected to be modest as interest rates close the year at levels at or slightly higher than those experienced during

GRAPH 7: HOUSING STARTS



Source: The Bureau of Census; E NAR Estimates

GRAPH 8: HOUSING STARTS BY REGION



Source: The Bureau of Census

late June and July.

Housing starts showed their greatest advance in the Northeast, where housing activity has been slack for months. Starts were up 16.0 percent in that region to a seasonally adjusted annual rate of 196 thousand units. However, starts in the Northeast remained 23.1 percent below the 255 thousand unit annual rate of a year ago. The Midwest also experienced a healthy rebound in the rate of starts, rising 11.0 percent to a seasonally adjusted annual rate of 272 thousand units. Starts fell in July in both the South and the West, two regions which had experienced rather strong growth in the rate of starts during June. Starts dropped by 4.3 percent in the South to a seasonally adjusted annual rate of 530 thousand units, and fell 4.2 percent in the West to an annual rate of 432 thousand units.

NEW HOME SALES

(Seasonally Adjusted Annual Rates, in Thousands)

NATIONAL DATA

Jul 1989	739	Dec 1988	669
Jun 1989	646	Nov 1988	650
May 1989	646	Oct 1988	718
Apr 1989	607	Sep 1988	691
Mar 1989	555	Aug 1988	712
Feb 1989	621	Jul 1988	701
Jan 1989	700		

Jul 1989

Changes From:

Annual Totals:

Jun 1989	14.4%	1987	671
Jul 1988	5.4%	1988	676

REGIONAL DATA

		Northeast	Midwest	South	West
Jul	1989	120	125	261	232
Jun	1989	77	101	255	213
May	1989	88	99	265	195
Apr	1989	82	99	201	182
Mar	1989	107	99	201	148
Feb	1989	84	103	236	198
Jul	1988	100	98	300	214
	1988	101	97	276	202
	1987	117	97	271	186

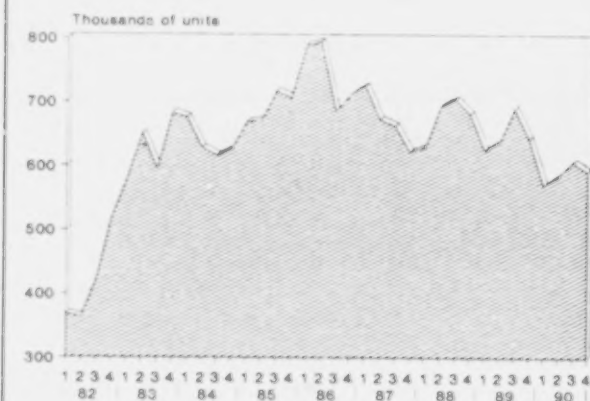
Jul 1989

Changes From:

Jun 1989	55.8%	23.8%	2.4%	8.9%
Jul 1988	15.4%	34.4%	-7.8%	5.0%

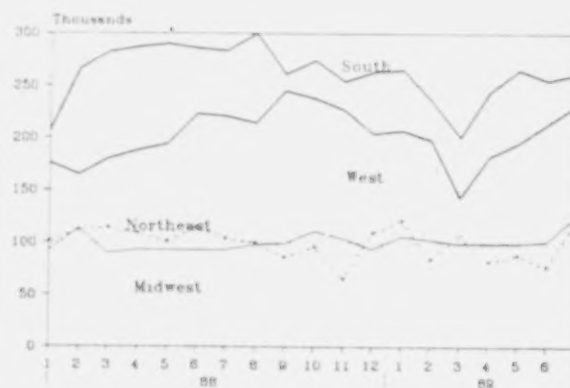
Source: Bureau of the Census, Construction Reports, Series C25

GRAPH 9: NEW HOME SALES



Source: The Bureau of Census, E NAR Estimates

GRAPH 10: NEW HOME SALES BY REGION



Source: The Bureau of Census.

Sales of new single-family homes staged an impressive comeback in July, jumping 14.4 percent to a seasonally adjusted annual rate of 739 thousand units. The rise marked the fastest rate of sales since December 1986, when homes were sold at an annual rate of 768 thousand units; and it was also the largest one month climb since March 1986. The July rebound appears to be the direct effect of a surge in market activity in both the Northeast and Midwest regions. New home sales have been exceptionally sluggish in the Northeast for months. The July fall in interest rates and diminishing fears of a recession, spurred the 55.8 percent jump in sales in the Northeast, and encouraged a 23.8 percent increase in the Midwest. For the Northeast, the 120 thousand uni-

annual rate was 15.4 percent faster than a year ago and faster than any rate seen since November of 1987. In the Midwest, the 125 thousand unit annual rate was 34.4 percent faster than a year ago, and the quickest pace since February 1987. Sales in the West moved up 8.9 percent to a seasonally adjusted annual rate of 232 thousand units, marking the fourth consecutive monthly rise, putting sales in that region 5.0 percent above the rate of a year ago. In the South, sales rose 2.4 percent to an annual rate of 261 thousand units. However, sales have been comparatively slow in the South during 1989: July sales were down 7.8 percent from July 1988.

EXISTING SINGLE-FAMILY HOME SALES

(Seasonally Adjusted Annual Rates, in Thousands)

NATIONAL DATA

Jul 1989	3400	Dec 1988	3920
Jun 1989	3360	Nov 1988	3710
May 1989	3210	Oct 1988	3680
Apr 1989	3400	Sep 1988	3650
Mar 1989	3400	Aug 1988	3690
Feb 1989	3480	Jul 1988	3650
Jan 1989	3550		

Jul 1988

Changes From:

Annual Totals:

Jun 1989	1.2%	1988	3594
Jul 1988	-6.8%	1987	3526

REGIONAL DATA

	Northeast	Midwest	South	West
Jul 1989	560	910	1320	570
Jun 1989	510	960	1280	600
May 1989	610	810	1230	580
Apr 1989	610	890	1280	620
Mar 1989	570	870	1270	670
Feb 1989	600	920	1310	640
Jan 1989	710	930	1310	630
Jul 1989	690	930	1370	660
1988	673	929	1350	642
1987	685	959	1282	600

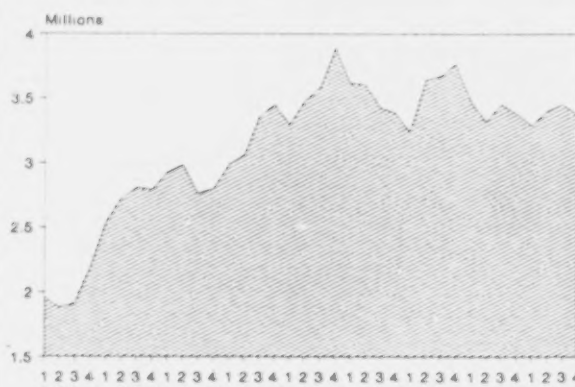
Jul 1989

Changes From:

Jun 1989	9.8%	-5.2%	3.1%	-5.0%
Jul 1988	-18.8%	-2.2%	-3.6%	-13.6%

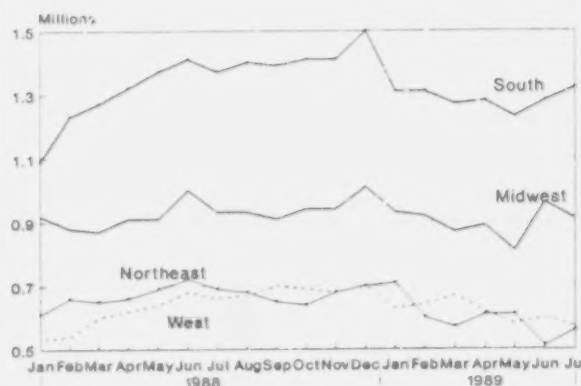
Source: NATIONAL ASSOCIATION OF REALTORS®,
Economics and Research Division

GRAPH 11: EXISTING HOME SALES



Source: The Bureau of Census, E NAR Estimates

GRAPH 12: EXISTING HOME SALES BY REGION



Source: NAR Economics and Research, E NAR Estimates

Mirroring the trend in starts and new home sales, the sales pace of existing homes picked up speed in July, rising 1.2 percent to a seasonally adjusted annual rate of 3.4 million units. When compared with a year ago, sales were off 6.8 percent from the 3.65 million unit sales rate. The July increase follows a 4.7 percent jump in June, which had put an end to a string of five monthly declines since January of this year. Sales are expected to remain strong in August, as continued low interest rates and new signs of economic growth encourage potential homebuyers. However, it is unlikely that the fall will see any large increase in sales activity given the Fed's apparent goal of keeping a tight reign on inflation. In the second half of 1989, sales are expected to average an annual rate of 3.43 million units, compared with 3.40 million units in the first half.

The increase in existing single-family home sales was led by the Northeast, where the sales rate rose 9.8 percent in July, after falling 16.4 percent in June (the Northeast was the only region to experience a decline in sales during June). However, sales in that region were 18.8 percent below their pace of a year ago. In the Midwest, sales declined 5.2 percent to a seasonally adjusted annual rate of 910 thousand units, down 2.2 percent from a year ago. Sales in the South rose for the second consecutive month to an annual rate of 1.32 million units, the fastest rate in that region since December of last year. Sales in the West were down 5.0 percent to a seasonally adjusted annual rate of 570 thousand units, marking the slowest rate of sales in over 16 months, and 13.6 percent below the sales pace of a year ago.

SINGLE-FAMILY HOME PRICES

	Median		Average	
	Existing	New	Existing	New
Jul 1989	\$96,400	\$118,800	\$121,200	\$143,300
Jun 1989	93,400	123,400	118,800	155,500
May 1989	92,600	118,900	118,000	144,800
Apr 1989	92,900	116,700	118,000	144,700
Mar 1989	92,000	123,000	116,100	149,000
Jul 1988	\$90,700	\$118,000	\$114,700	\$141,300
1988	89,300	112,500	112,800	138,300
1987	85,600	104,500	106,300	127,200
Jul 1989 Changes From:				
Jun 1989	3.2%	-3.7%	2.0%	-7.8%
Jul 1988	6.3%	0.6%	5.7%	1.4%

REGIONAL DATA

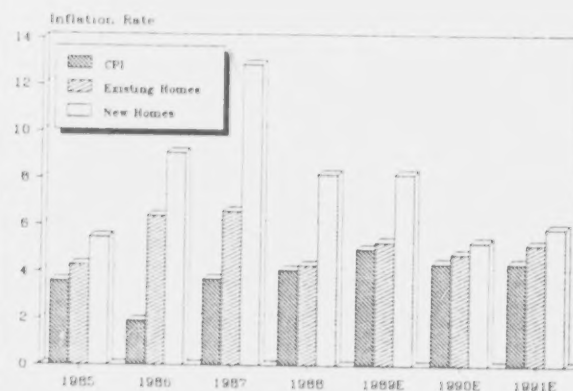
MEDIAN SALES PRICE OF AN EXISTING HOME

	Northeast	Midwest	South	West
Jul 1989	\$147,900	\$73,500	\$88,200	\$138,200
Jun 1989	149,900	72,000	85,000	134,500
May 1989	143,800	70,300	84,100	142,300
Apr 1989	144,000	70,400	85,200	142,700
Mar 1989	143,600	69,900	84,000	138,000
Jul 1988	\$144,700	\$69,400	\$84,700	\$125,300
1988	143,000	68,400	82,200	124,900
1987	133,300	66,000	80,400	113,200
Jul 1989 Changes From:				
Jun 1989	-1.9%	2.1%	3.7%	2.7%
Jul 1988	2.2%	5.9%	4.1%	10.3%

Source: NATIONAL ASSOCIATION OF REALTORS®, Economics and Research Division

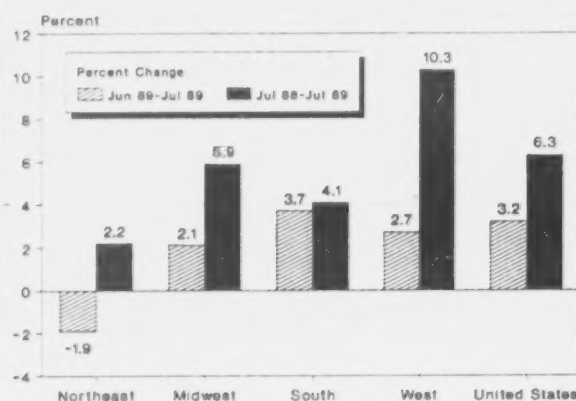
As is usually the case during the summer months, the median price of an existing single-family home continued to rise in July, moving upward by 3.2 percent to \$96,400. Moreover, the median existing home showed an annual appreciation rate (July 1988 to July 1989) of 6.3 percent. Meanwhile, the median price of a new home dropped 3.7 percent in July to \$118,800 and was virtually unchanged from the \$118,000 median price of a year ago. The rapid price acceleration in new homes since 1986, appears to be subsiding somewhat. The surge in the price of new homes has been encouraged by increases in both size and amenities, as the first wave of the baby boomers matured into the "move-up" market and demanded bigger and better homes. While the demand for large homes is likely to remain strong in coming years, it is unlikely that

GRAPH 13: HOME PRICES



Source: The Bureau of Census, E NAR Estimates

GRAPH 14: HOME PRICES BY REGION



Source: NAR Economics and Research, E NAR Estimates

potential buyers will continue to demand increasingly larger homes. Consequently, we expect that increases in new home prices will fall more in line with that of existing home prices in coming years.

The Northeast was the only region to see a decline in the median price of an existing single-family home during June, where prices fell 1.9 percent to \$147,900. The South experienced the largest one month price increase, with the median price moving up 3.7 percent to \$88,200. Meanwhile, prices in the West and Midwest were up 2.1 percent and 2.7 percent, respectively.

Sean A. Burns, Director of Forecasting
Beth M. Maerz, Research Associate

The *Real Estate Outlook* features a monthly summary of current economic conditions, an easy-to-read forecast for the economy and real estate, and selected reports on issues affecting the housing industry. In addition, one of the Nation's top real estate economists, Dr. John Tuccillo, gives his commentary on the state of the economy and its implications for real estate markets. If you would like to subscribe to the *Real Estate Outlook*, contact the Forecasting and Policy Analysis Division at (202) 383-1131. The annual subscription fee is \$25 for members of the NATIONAL ASSOCIATION OF REALTORS® and \$30 for nonmembers.

	QUARTERS								YEARS				
	ACTUAL		FORECAST						ACTUAL		FORECAST		
	1989.1	1989.2	1989.3	1989.4	1990.1	1990.2	1990.3	1990.4	1987	1988	1989	1990	1991
AGGREGATE ECONOMY													
Gross National Product (billions of dollars)	5113	5204	5279	5355	5434	5504	5577	5655	4524	4881	5238	5543	5898
% Change	7.9	7.3	5.9	5.9	6.0	5.3	5.4	5.7	6.9	7.9	7.3	5.8	6.4
% Change (w/out inflation)	3.7	2.7	2.1	1.8	1.5	1.4	1.5	1.9	3.7	4.4	2.9	1.7	2.3
Consumer Price Inflation (CPI)	5.4	6.4	3.6	4.4	4.3	4.4	4.3	4.2	3.7	4.1	5.0	4.4	4.4
GNP Inflation (GNP Deflator)	4.0	4.6	3.6	4.0	4.4	3.9	3.8	3.7	3.1	3.3	4.3	4.0	4.0
Unemployment Rate - Civilian	5.2	5.3	5.2	5.2	5.3	5.3	5.4	5.5	6.2	5.5	5.2	5.4	5.3
Civilian Employment-Household Basis (millions)	116.9	117.3	117.8	118.2	118.4	118.8	119.0	119.3	112.4	115.0	117.6	118.9	120.4
Percent change	3.7	1.3	1.8	1.4	0.7	1.1	0.9	1.0	2.6	2.3	2.3	1.1	1.3
Index of Industrial Production	140.7	141.6	142.3	142.9	143.5	143.9	144.5	145.2	129.8	137.2	141.9	144.3	147.9
Manufacturing Capacity Utilization	84.4	84.2	84.0	83.9	84.0	83.9	83.8	84.2	81.0	83.6	84.1	84.0	84.0
Domestic Auto Sales	7.0	7.3	7.9	7.0	7.0	7.0	7.2	7.3	7.1	7.5	7.3	7.1	7.3
Federal Tax Receipts (NIPA) as % of GNP	20.3	20.2	20.0	20.1	20.8	20.8	20.9	20.9	20.1	19.9	20.2	20.8	20.8
Federal Expenditures (NIPA) as % of GNP	23.2	23.1	22.8	22.7	22.8	22.7	22.7	22.6	23.7	22.9	22.9	22.7	22.6
Deficit (NIPA) as % of GNP	-147.5	-148.4	-145.4	-138.0	-106.2	-103.6	-102.5	-101.0	-161.3	-145.9	-144.8	-103.3	-104.8
	-2.9	-2.9	-2.8	-2.6	-2.0	-1.9	-1.8	-1.8	-3.6	-3.0	-2.8	-1.9	-1.8
REAL ESTATE MARKETS													
HOME SALES													
Total Single-family Home Sales (thousands, single-family resales plus 97 percent of single-family starts)	4515	4285	4493	4425	4309	4418	4478	4388	4648	4650	4429	4398	4458
Percent change - year ago	1.5	-2.0	-3.8	-5.7	-4.6	3.1	-0.3	-0.8	-1.4	0.0	-4.7	-0.7	1.4
Existing Single-family Home Sales (thousands)	3477	3320	3457	3383	3290	3405	3455	3370	3526	3594	3409	3380	3445
Percent change - year ago	5.4	-8.9	-5.6	-10.3	-5.4	2.6	-0.1	-0.4	-1.1	1.9	-5.1	-0.9	1.9
Housing Starts (thousands)	1517	1357	1461	1465	1439	1440	1451	1446	1634	1495	1450	1444	1431
Percent change - year ago	2.8	-8.1	-0.4	-6.0	-5.2	6.2	-0.7	-1.3	-9.8	-8.5	-3.0	-0.4	-0.9
Single-Family Units	1070	995	1068	1074	1050	1044	1055	1050	1156	1088	1052	1050	1045
Percent change - year ago	-2.3	-6.0	0.7	-5.6	-1.8	5.0	-1.2	-2.3	-2.2	-5.9	-3.3	-0.2	-0.5
Multi-Family Units	448	362	393	390	389	396	396	396	477	407	398	394	387
2-4 Family Units	59	53	58	58	57	58	59	59	65	59	57	58	57
Percent change - year ago	6.0	-7.5	1.6	-11.9	-3.4	9.4	0.9	1.6	-23.0	-9.5	-3.3	1.9	-2.0
5+ Family Units	388	308	335	333	331	337	338	338	412	348	341	336	330
Percent change - year ago	19.2	-14.5	-4.1	-6.3	-14.7	9.4	0.9	1.6	-24.4	-15.6	-1.9	-1.4	-2.0
New Single-family Home Sales (thousands)	625	638	690	643	570	585	607	592	671	677	649	589	639
Percent change - year ago	0.6	-8.5	-1.6	-5.3	-8.8	-8.3	-12.0	-7.9	-10.5	0.9	-4.1	-9.3	8.6
Mobile Homes Shipped (thousands)	217	202	214	215	208	210	209	212	233	218	212	210	216
HOME PRICES													
Existing Home Prices - Median \$(1000)	91.2	92.9	95.4	96.5	97.2	98.0	99.3	99.7	85.6	89.3	94.0	98.6	103.7
Percent change - year ago	3.9	4.5	5.8	8.8	6.6	5.5	4.1	3.3	6.6	4.3	5.3	4.8	5.2
New Home Prices - Median \$(1000)	118.0	122.2	122.5	124.1	124.7	127.2	129.5	131.0	104.0	112.5	121.7	128.1	135.7
Percent change - year ago	4.5	8.2	6.6	8.1	5.7	4.1	5.7	5.6	13.0	8.2	8.2	5.3	5.9
FINANCIAL MARKETS													
Long-Term Interest Rates													
30-year FRM (FHA Secondary)	10.9	10.5	10.0	9.9	10.0	9.9	9.8	9.7	10.2	10.5	10.3	9.9	10.1
1-year ARM (without buydown)	8.8	9.0	8.7	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.8	8.5	8.5
Corporate AAA Bond Rate	9.7	9.5	9.0	8.9	9.0	8.9	8.8	8.7	9.4	9.7	9.3	8.9	9.0
Government Bond Rate	9.0	8.7	8.2	8.1	8.2	8.1	8.1	8.0	8.6	9.0	8.5	8.1	8.3
Short-Term Interest Rates													
Federal Funds Rate	9.4	9.7	9.1	8.8	8.5	8.2	8.2	8.2	6.7	7.6	9.3	8.3	8.0
3-month T-Bill Rate	8.5	8.4	8.0	7.8	7.6	7.4	7.4	7.4	5.8	6.7	8.2	7.5	7.2
Prime Rate	11.0	11.4	10.8	10.6	10.5	10.0	10.0	10.0	8.2	9.3	11.0	10.1	10.0
Discount Rate	6.7	7.0	7.0	7.0	6.7	6.5	6.5	6.5	5.7	6.2	6.9	6.6	6.2
Value of the U.S. Dollar (Trade-Weighted Avg.)	96	100.4	100.2	100.1	98.3	96.4	94.7	93.8	96.9	92.8	99.2	95.8	92.6
Percent change	13.5	19.7	-0.5	-0.6	-6.9	-7.8	-6.6	-3.7	-13.6	-4.3	6.9	-3.4	-3.3

Source: Forecast produced using Laurence H. Meyer and Associates' model of the U.S. economy.

Assumptions and simulations by Dr. John Tuccillo, Dr. Frederick Flick, Sean Burns and Beth Maerz.



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